

Period: 1st to 31st March 2008

Fund Performance

The volatility in the Australian equity market presented us with trading opportunities. The NavTraDE system buys shares as share prices depreciate. Our cash holding at the end of March was 4.39% as we have taken the opportunity to buy stocks at favourable prices. The actual returns in March for the Retail and Wholesale funds were -1.38% and -1.35% respectively compared to the -3.88% return of the S&P/ASX200. This resulted in an over-performance of 2.51% and 2.53% for the Retail and Wholesale funds against our benchmark.

The NavTraDE system takes advantage of irrational investor behaviour to buy quality companies as their share prices are falling and to sell them as they are rising. Consequently, the system can realize capital gains from dealing in shares with volatile price movements, irrespective of the net price movement from the beginning to the end of the period. It takes time for shares to move through price cycles and therefore for the potential of the NavTraDE system to be fully realized.

The stocks that performed well this month and generated realized capital gains through trading include Lion Nathan (LNN), Bluescope Steel (BSL), Orica (ORI), Santos (STO), Wesfarmers (WES), and Woodside (WPL).

The stocks that performed well this month and generated unrealized capital gains include The ANZ Bank (ANZ), Bendigo Bank (BEN), Boral (BLD), Great Southern Plantations (GTP), Iluka Resources (ILU), National Australia Bank (NAB), Orica (ORI), Santos (STO), Westfield (WDC), and Wesfarmers (WES).

During the month, the shares that detracted from performance either due to low volatility or because they were displaying unrealized losses were AGL Energy (AGK), Asciano Group (AIO), BHP Billiton (BHP), Brambles (BXB), Coca-Cola Amatil (CCL), CMJ, Futuris (FCL), Foster's (FGL), Fairfax (FXJ), MBL, OneSteel (OST), Rio Tinto (RIO), Tabcorp (TAH), Telstra (TLSCA), Toll Holdings (TOL), and Woolworths (WOW).

The NavTraDE system resulted in increased weightings in: Lion Nathan (LNN), The ANZ Bank (ANZ), Bluescope Steel (BSL), National Australia Bank (NAB), Coca-Cola Amatil (CCL), OneSteel (OST), and Rio Tinto (RIO).

The NavTraDE system also resulted in decreased weightings in: BHP Billiton (BHP), and Santos (STO).

To view our current portfolio, please [click here](#).

The Australian Share Market

The Australian stock market fell by 3.9% in March.

The stock market (as measured by the ASX 200) continued to fall during March by -3.9%, in concert with share markets around the world. The key drivers were again the concerns of a US recession, and the uncertainty surrounding the continuing deterioration in credit markets. These issues will continue to affect Australian share prices in the coming months.

Mixed news on economic front.

There was mixed news on the economy during March. The RBA again raised rates, increasing the official interest rates to 7.25% in an attempt to fight inflation. Business conditions, consumer confidence and retail sales all fell, indicating that the recent bouts of RBA tightening might be having their intended effects. The slump in share prices might also have contributed to those falling signals. On a more positive note, economic growth of 3.9% yoy in the December 2007 quarter was recorded and unemployment fell to its lowest level since November 1974.

RBA confirms risks on interest rates to remain.

The RBA confirmed that interest rate risks remain on the upside whilst the RBA's Financial Stability Review reported increasing concerns about the global financial system.

The best performing sectors were Software & Services, Banks, and Food & Drug Retailing.

The best performing sectors in March were Software & Services (+2.9%); Banks (+2.6%); and Food & Drug Retailing (+2.5%)

The worst performing sectors in the month were Telecommunication Services (-10.5%); Hotels Restaurants & Leisure (-10.2%); and Retailing (-9.5%).

Global Share Markets

US economic conditions continue to deteriorate.

Concerns for the US economy continued in March. A US recession is now probably confirmed by a number of economic indicators. The most notable of these indicators include the falling employment, declining industrial production and weak consumer spending. The US Federal Reserve countered by injecting extra liquidity into the banking system and providing emergency funding to the distressed US investment bank Bear Stearns. It also cut its benchmark federal funds rate by 0.75% to 2.25%. These actions were designed to ameliorate the impact of the credit crunch and restore confidence into the US financial system.

On a more positive note, the US core inflation declined to 2%, thereby providing the Federal Reserve with room for more interest rate cuts in the future.

Chinese inflation climbs and production, sales, and exports slows.

Chinese inflation continued to climb with the consumer price index rising by 8.7% yoy, mainly due to increasing food prices. Non-food inflation remained mild at 1.6% yoy. This prompted the Chinese to raise the bank reserve ratio to 15.5%, an 11-year high. However, further measures by the Chinese authorities to contain inflation may be required. China's industrial production, retail sales, and exports slowed. But this is to be expected given the severe winter conditions experienced which were not anticipated nor handled well by the Chinese authorities.

Japan continue to be weak.

The Japanese reported weak economic data during March with a fall in employment, retreating consumer confidence and declining household spending. Sharp falls in business investment during the month added to fears that the Japanese economic might also be headed into recession.

Share Market Outlook

Continued rough ride ahead for the Australian share market with a likely rebound later in the year.

The Australian economic conditions are likely to remain on an even keel this year, enjoying further increases in iron ore and coal prices. However, with the high local interest rates relative to the rest of the developed world, a slowing down in 2009 is on the cards.

Once again, Australian shares continue on a decline this month, in concert with the global share markets. Concerns about the US recession and continued worsening of the global credit markets will persist. Consequently, the share market will remain volatile over the short to medium term. It is likely that share prices will rebound later in the year, given that dividend yields are still solid with reasonable growth prospects.